ORIGINAL DOCKET FILE COPY ORIGINAL

RECEIVED

APR 12 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Federal-State Joint Board on Universal Service	CC Docket No. 96-45

NYNEX COMMENTS

The NYNEX Telephone Companies

Joseph Di Bella

1300 I Street, N.W., Suite 400 West
Washington, DC 20005
(202) 336-7894

Their Attorney

Dated: April 12, 1996

No. of Copies rec'd 0+4
List ABCDE

Table of Contents

Summary i

I. Universal Service Funding Should Be Narrowly Targeted To Achieve The Goals Of The Telecommunications Act Of 1996 1

A. Overly Broad Funding Of Universal Service Will Impede The Statutory Goal Of Promoting Competition. *1*

B. Implicit Funding Mechanisms That Do Not Support Universal Service Should Be Dealt With Through Pricing Flexibility And Access Charge Reform. *3*

II. The Commission Should Use A Proxy Model To Target Support To Rural, Insular, And High Cost Areas In A Competitively Neutral Fashion. 9

A. The Commission Should Use The Benchmark Cost Model To Target Support For Price Cap LECs To Rural, Insular, And High Cost Areas. *9*

B. The BCM Should Be Used To Develop Support For "Core" Services. *11*

C. The BCM Should Be Used As A Backstop For State Efforts To Support Affordable Rates. *13*

III. The Commission Should Develop Support Mechanisms For Low-Income Subscribers That Will Promote Subscribership. 16

IV. The Commission Should Develop Flexible Assistance Mechanisms For Schools, Libraries and Health Care Providers 18

A. The Commission Should Rely Upon Input From Schools, Libraries, And Health Care Providers To Determine Which Services To These Entities Should Be Funded. *18*

B. The Commission Should Adopt The NYNEX Education Plan For Support To Schools. *21*

V. All Interstate Telecommunications Carriers Should Contribute To The Universal Service Fund Based On Their Interstate Retail Revenues 23

VI. Conclusion 25

Exhibit A The Benchmark Cost Model

Exhibit B NYNEX Educational Initiatives for Grades K-12

Exhibit C Aspen Institute Report

Exhibit D The NYNEX Education Plan

SUMMARY

The Commission should narrowly target universal service support to achieve the purposes of the Telecommunications Act of 1996. Excessive recovery of cost through the universal service fund would impede competition and the efficient pricing of telecommunications services. Section 254 of the Act does not require the Commission to place implicit subsidies, or contributions to joint and common costs, in the universal service fund unless those subsidies or contributions support universal service as defined in the Act. Contrary to the views of some parties, the Carrier Common Line charge ("CCLC"), which is offsets recovery of common line costs through the Subscriber Line Charge ("SLC"), is not such a subsidy, because the cap on the Subscriber Line Charge was not adopted as a universal service mechanism. While these rate elements may not be sustainable in a competitive environment, the Commission should allow the local exchange carriers ("LECs") to deal with this issue through increased pricing flexibility.

The Commission should provide targeted universal service funding for above-average loop costs in high-cost areas. It should use the Benchmark Cost Model to identify high-cost census block groups and to develop assistance levels for carriers that provide universal service to such areas. In specifying the levels of assistance that would be provided through the interstate universal service fund, the Commission should not prohibit the state regulatory commissions from maintaining current mechanisms for supporting universal service. For instance,

the Commission should not prohibit rate structures such as the "play or pay" system implemented by the New York Public Service Commission, which provides lower intercarrier traffic termination rates for full service providers of local exchange services to encourage meaningful competition in the local exchange market and to reflect the risks assumed by such carriers.

The Commission should expand upon its existing assistance programs for low-income customers, such as the Lifeline and Link-up America programs. These programs have been effective in the past in promoting subscribership, and they may need to be enhanced to accommodate the effects of increased competition in the local exchange market.

The Commission should develop flexible assistance mechanisms for schools, libraries and health care providers. The first step is to obtain input from the schools, libraries and health care providers about the types of services and capabilities that they need to obtain access to information and telecommunications technologies. The Commission should avoid dictating a standard set of services that these entities would be provided. Rather, the Commission should allow each school, library and health care provider to choose the services it needs.

As an example of a flexible universal service funding program, NYNEX has developed the NYNEX Education Plan ("NEP") to provide support to schools under Section 254 of the Act. This plan would require the Commission, with input from educators, the telecommunications industry, and other concerned parties, to define an "educational vision" for connecting the nation's schools and classrooms to the information superhighway. This vision would be used to develop a nationwide cost, which would be translated into a Benchmark Discount per-student. An educational authority in each State would certify a school's plan to use the Benchmark Discount to purchase the telecommunications services it needs. Schools would be able to negotiate the best prices they could obtain, perhaps through group purchases, since the Benchmark Discount would be used as an additional discount from the prices quoted or bid by telecommunications carriers. Carriers would seek reimbursement for the Benchmark Discount from the universal service fund administrator.

This plan would give the state authorities and the schools themselves the maximum flexibility to decide what services they need and can afford. It would promote competition among telecommunications providers to meet the schools' needs. Because it would apply discounts to the bid prices, it would not require the Commission to determine the " base" or undiscounted price for service, and it would not depend on the filing of tariffed rates in determining the discount.

A similar plan could be developed for libraries, using a Benchmark Discount per-library. With regard to service to health care providers, the Commission should gather evidence to determine whether it needs to develop assistance mechanisms to implement the statutory requirement of rural-urban rate parity.

All interstate telecommunications carriers that provide voice and data communications should contribute to the universal service fund based on their pro-rata shares of nationwide interstate retail telecommunications revenues. Carriers that receive such support should provide offsetting reductions to their interstate access charges, their state access charges, or their state toll rates, whichever are higher.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Federal-State Joint Board on Universal Service	CC Docket No. 96-45

NYNEX COMMENTS

The NYNEX Telephone Companies[1] ("NYNEX") hereby file their Comments in response to the Commission's Notice of Proposed Rulemaking ("*NPRM*") in the above-referenced proceeding.[2]

I. Universal Service Funding Should Be Narrowly Targeted To Achieve The Goals Of The Telecommunications Act Of 1996.

A. Overly Broad Funding Of Universal Service Will Impede The Statutory Goal Of Promoting Competition.

As a general policy, the Commission should limit the size of the universal service fund to the minimum necessary to achieve the goals of the Telecommunications Act of 1996. An overly broad definition of universal

[1] The NYNEX Telephone Companies are New York Telephone Company and New England Telephone and Telegraph Company.

[2] In the Matter of Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking and Order Establishing Joint Board, CC Docket No. 96-45, FCC 96-93, released March 8, 1996.

service would impede the statutory goal of promoting competition, because it would impair efficient pricing of telecommunications services.

Under Section 254(b)(4) of the Communications Act of 1934, as amended (the "Act"), all telecommunications carriers must contribute to the funds that will be used by eligible carriers to provide universal service. This will reduce the ability of the market to use pricing as an efficient means of allocating resources, because the rates paid by the beneficiaries of universal service support will not reflect the cost of serving them, and because the rates for all other services will be higher than their costs in order to provide contribution to the universal service fund. Over the long term, placing an excessive amount of the telecommunications industry's revenues in a government-administered fund would impair the Commission's ability to replace regulatory controls with the discipline of the marketplace.

For these reasons, a fund that is too large is as undesirable as a fund that is too small. The Commission should not include any revenue stream in the universal service fund unless it directly supports service to low-income residential consumers, rural, insular, and high cost areas, and schools, libraries, and health care providers.

B. Implicit Funding Mechanisms That Do Not Support Universal Service Should Be Dealt With Through Pricing Flexibility And Access Charge Reform.

The Telecommunications Act of 1996 does not require the Commission to replace any, or all, of the contributions to joint and common costs in the interstate access charge system with universal service funding. Implicit support mechanisms must be made explicit, and must be incorporated into the new Section 254 universal service fund, only if they are necessary to support universal service as defined in the Act. Contributions that do not directly support universal service should be dealt with through pricing flexibility and access charge reform.

Sections 254(b)(5) and 254(d) of the Act state that the mechanisms to support universal service should be "specific, predictable, and sufficient." Section 254(e) states that any universal service support "should be explicit and sufficient to achieve the purposes of this section," and that such support is to be used by an eligible carrier "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." These provisions clearly require explicit funding mechanisms only for contributions to universal service as defined in the Act. They do not require the Commission to eliminate all, or even a major portion, of the contributions to joint and common costs in the interstate access charge system with a universal service funding mechanism, if those contributions do not preserve or advance universal service.

This interpretation of Section 254 is supported by the legislative history. The conference report states that "[t]o the extent possible, the conferees intend that any support mechanisms continued or created under new section 254 should be explicit, rather than implicit as many support mechanisms are today."[3] The report goes on to say that "all universal service support should be clearly identified, . . . should be made explicit and should be sufficient to achieve the purposes of new section 254." Thus, a support mechanism must be made explicit if it is designed to achieve the purposes of Section 254. The conference report makes it clear that Section 254(e), which requires universal service support to be explicit, and to be available only to eligible carriers, "should not be construed to prohibit any telecommunications carrier from using any particular method to establish rates or charges for its services to other telecommunications carriers, to the extent such rates or charges are otherwise permissible under the Communications Act or other law."[4] Thus, a rate structure for interstate access charges may provide substantial contribution to the recovery of joint and common costs if such contribution is not used to support universal service.

As a practical matter, the Commission must construe Section 254 in this way, because it is neither possible, nor desirable, to create a rate structure for telecommunications services that reflects the "true" economic cost of serving each customer. The costs of serving a particular customer vary by the type of

---

[3] S. Conf. Rep. No. 104-230, 104th Cong., 2nd Sess. 131.
[4] *Id.*

facilities provided, the customer's location, the volume of service, the short run and/or long run effect on capital deployment, and a host of other factors that change constantly. For this reason, a carrier defines a class of customers and develops averaged rates for the entire class. Even if the carrier disaggregates its rates by geography, time of day, or volume, the rate level is the same for the group of customers in the disaggregated category. This means that some customers in the category will pay more than the cost of serving them, and the excess revenues from these customers subsidize other customers that are paying rates that do not recover their costs. Moreover, marketing considerations often dictate that rates for some services will directly subsidize rates for other services. For instance, supermarkets do not charge customers for parking, but recover the costs of parking in the price for groceries. They do this because it is a more effective way of encouraging customers to shop. In the cellular telephone service market, carriers typically pay cash subsidies to companies that sell cellular telephones to lower the cost to the consumer of establishing service. The cellular carriers recover these subsidies in their monthly rates for cellular service. The carriers have found that this is a much more effective way of encouraging subscribership than charging cost-based rates for cellular service and for cellular telephones.

Thus, even in a perfectly competitive market, variable amounts of contribution to joint and common costs, and cross-subsidies between services, will always exist. Such pricing practices are not inconsistent with Section 254 unless they represent direct subsidies for universal service.

In the *NPRM*, the Commission stated that "the imposition of per-minute charges [the Carrier Common Line charge] on one class of service -- interstate interexchange long distance -- to reduce flat rates for end users (with the goal of increasing subscribership) appears to constitute a universal service support flow," citing the Joint Board's *1987 Recommended Decision*.[5] However, the *1987 Recommended Decision* did not find that the current subscriber line charge ("SLC") caps ($3.50 per month for residential and single-line business, and $6.00 per month for multi-line business and Centrex) were necessary to preserve universal service. Rather, the Joint Board found "nothing in the record that indicates that subscriber line charges have undermined universal service," and that subscribership had actually <u>increased</u> since the Commission had implemented SLCs.[6] The Joint Board found that SLCs had not affected customers' decisions to connect or disconnect from the telephone network, and that the greatest deterrents to subscribership were the high cost of commencing service and involuntary disconnections due to high toll bills. For these reasons, the Joint Board recommended that the Commission monitor the impact on subscribership

---

[5] *NPRM* at para. 113, *citing* MTS and WATS Market Structure; Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Recommended Decision and Order, 2 FCC Rcd 2324 (1987) ("*1987 Recommended Decision*").

[6] *See id.* at p. 2328.

of increases in the SLC before adopting any higher caps on the SLC.[7] Thus, the *1987 Recommended Decision* does not support a finding that the current cap on the SLC, and the corresponding level of the CCL charge, is an implicit subsidy for universal service.[8]

While the CCL charge is designed to support below-cost SLC rates, it is not designed to support universal service, since neither an increase nor a decrease in the SLC cap is likely to have a significant effect on subscribership. To increase the level of subscribership, the Commission needs to target additional assistance to low-income households and to geographic areas and demographic groups that have lower-than average subscription rates.[9] CCL

---

[7] *See id.* at pp. 2329-30. During the time that the Commission phased-in the SLC increases to the current caps, subscribership continued to increase, from 92.5% in 1987 to 93.0% in 1989, when the final SLC increases were implemented. *See* Telephone Subscribership in the United States, Industry Analysis Division, Federal Communications Commission, released February 1996. The fact that the Commission never increased the SLC caps further does not support the argument that the caps are related to universal service. SLC increases generated a great deal of political opposition that blunted the efforts to make further increases.

[8] The Joint Board also recommended additional lifeline assistance to offset the increase in the SLC and to minimize any impact on universal service. *See id.* at p. 2329. However, this simply highlights the fact that targeted assistance, based on need, supports universal service, but that the nationwide cap on the SLC is not a universal service support mechanism.

[9] *See* Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network, CC Docket No. 95-115, Notice of Proposed Rulemaking, FCC No. 95-281, released July 20, 1995, paras. 1-2.

revenues need not, and should not, be included in the universal service funding mechanism unless necessary to support targeted assistance.[10]

While it is true that the current rate structure for interstate access, which was designed in a monopoly environment, is not sustainable once competitors enter the local exchange market, this does not mean that large parts of the interstate access charge revenue stream must be shifted to the universal service fund. What the local exchange carriers ("LECs") need as they begin to face increasing levels of competition is increased pricing flexibility. The Commission should give the LECs the ability to make the transition from regulatory-controlled to market-based rates and rate structures as competition develops. In Docket 94-1, NYNEX proposed an Adaptive Regulatory Model which would match the level of LEC pricing flexibility to the level of local exchange competition. If the Commission adopted this model, it could avoid transferring massive amounts of access charge revenues to the universal service fund, while giving the LECs the tools they need to eliminate rate levels and rate structures that are inconsistent with market-based pricing.[11]

---

[10] In the following sections, NYNEX describes the types of targeted assistance that the Commission should establish to carry out the goals of the Telecommunications Act of 1996. To the extent that these mechanisms should be used to replace revenue flows from the CCL charge, such as the LTS revenues that are recovered through the CCL charges, the LECs should be required to reduce their CCL rates.

[11] Some of the interexchange carriers ("IXCs") have argued for drastic reductions in interstate access rates as a result of the passage of the Telecommunications Act of 1996. If the Commission decided to require such reductions, it would have to allow the LECs other means of recovering such costs, which could include recovery through the universal service fund.

II. The Commission Should Use A Proxy Model To Target Support To Rural, Insular, And High Cost Areas In A Competitively Neutral Fashion.

A. The Commission Should Use The Benchmark Cost Model To Target Support For Price Cap LECs To Rural, Insular, And High Cost Areas.

Section 254(b)(3) of the Act requires the Commission to address the support needed to ensure that those in rural, insular, and high cost areas have access to telecommunications services and information services "that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for services in urban areas." In designing support for customers in these areas, the Commission is also required to promote the principle that "[q]uality services should be available at just, reasonable, and affordable rates."[12]

The Commission already has several mechanisms for supporting service to high-cost areas, including the Universal Service Fund ("USF"), LTS, and Dial Equipment Minutes ("DEM") weighting.[13] These mechanisms should be replaced, as they do not meet the technical requirements of Section 254 of the Act concerning the definition of universal service or the method of collecting and distributing universal service support.

---

[12] 47 U.S.C. Section 254(b)(1).

[13] *See* Common Carrier Bureau, FCC, Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms 50-77 (1996).

NYNEX supports the use of a proxy system, such as the Benchmark Cost Model ("BCM") cited in the *NPRM*, to target assistance to rural, insular, and high-cost areas.[14] The BCM provides a method of identifying census block groups ("CBGs") that are relatively more costly to serve due to factors such as distance from the central office, population density, terrain, and surface characteristics. The subsidy amounts that would be developed through the BCM would be competitively neutral, since any eligible carrier, as defined in new Section 214(e) of the Act, could receive the same payment as an incumbent LEC for serving a customer in the same census block group. [15]

The BCM should only be used to calculate support amounts for price cap LECs. The BCM is sufficiently accurate to target support for large carriers, such as the price cap LECs, who serve wide geographic areas, because any overestimation in some areas will be offset by underestimation in other areas. However, such a model may not accurately portray the costs of a carrier that serves only a limited or a smaller area, and this could cause financial harm to small carriers. For rate of return carriers, which are typically small carriers that

---

[14]*See NPRM* at para. 31; Comments of the NYNEX Telephone Companies, CC Docket 80-286, filed October 10, 1995.

[15] The Commission should not establish a competitive bidding system for high cost support. *See NPRM* at para. 35. Such a system would be difficult to administer, and it would not necessarily represent a better method of identifying high cost areas. It would also create large variations in the amount of support that is directed at each high-cost area based on the level of competition and the business objectives of the bidders.

serve rural areas, the Commission should use actual study area costs to develop high-cost assistance.[16]

B. The BCM Should Be Used To Develop Support For "Core" Services.

The Commission should use the BCM to develop support for "core" services in high-cost areas. Core services should be defined as (1) voice grade residential service with the ability to place and receive calls;[17] (2) single party service;[18] (3) touch-tone dialing;[19] (4) directory listing; (5) access to local and long distance toll calling; (6) access to operator services; (7) access to emergency (911) service;[20] and (8) access to Telecommunications Relay Service.[21] An eligible carrier should be required to provide these core services with a level of quality

---

[16] Since support for rate-of-return carriers would be based on their own costs, the service area for purposes of Section 254 should be a rate-of-return carrier's study area. This is consistent with Section 214(e)(5), which states that the service area of a rural carrier (as defined in the Act) that is designated as an "eligible carrier" for universal service support should be that carrier's study area. Where high-cost support is determined through a proxy model such as the BCM, the "service area" should be the census block group.

[17] In areas served by small LECs, the Commission may also consider adding single line business service to the definition of universal service.

[18] Single party service is necessary for emergency, public health, and safety considerations. It is also widely subscribed; in New York, 99% of the subscribers have single party service.

[19] Touch tone dialing increases network efficiency, and it is essential in using many information services.

[20] While access to 911 emergency service is necessary for public safety and security, E911 service should not be included at this time. Carriers are currently collaborating with local authorities to deploy this technology, but it is not yet universally available.

[21] Telecommunications Relay Service itself should continue to be funded separately to be consistent with Section 225 of the Act.

that is at least comparable to the quality provided by the incumbent LEC, and at rates that are no higher than are charged by the incumbent LEC for such service.

Advanced services, such as Internet access service, data transmission capability, ISDN, optional Signaling System Seven features or blocking of such features, enhanced services, and broadband services should not be included in the definition of core universal service.[22] Core universal service, at a minimum, has to include services that are subscribed to by a majority of subscribers.[23] The technology and marketing of advanced services are still being developed, and these services have not yet reached a substantial majority of subscribers. The Commission should consider these services as part of its "evolving" definition of universal service under Section 254(c)(1).[24]

As a general rule, core universal service should be limited to services using wireline technology. Wireless telephone service is not subscribed to by a substantial majority of residential customers because it is priced substantially

---

[22] It should be noted that core services would provide dial-up access to the Internet via an independent Internet access provider. This is the primary method that residential customers use today to obtain access to the Internet. Only a small percentage of residential customers prescribe to dedicated links for purposes of reaching the Internet. As the LECs and the competitive local exchange carriers ("CLECs") begin developing specialized services for accessing the Internet, the Commission may consider expanding the definition of core universal service.

[23] *See* 47 U.S.C. Section 254(c)(1)(B).

[24] *See NPRM* at paras. 66-67. These services also should be considered in developing the definition of "special" services that would be supported for schools, libraries, and health care providers under Section 254(c)(3) of the Act. For example, under the NYNEX Education Plan, discussed in Section IV(B) *infra,* schools would be able to purchase advanced high capacity services at discounted rates.

above the rates for wireline service. In the exceptional circumstances where wireless technology might be a more cost efficient means of providing residential voice grade service in extremely high cost areas, it might be included in the universal service definition. This should be allowed only on an exception basis, and should be cost-justified.

C. The BCM Should Be Used As A Backstop For State Efforts To Support Affordable Rates.

The BCM would promote the statutory objectives of providing support to rural and high cost areas at rates that are comparable to rates in urban areas, which are generally less costly to serve, and of ensuring that rates for telephone service are "affordable" in high cost areas. Because the model calculates support for high-cost areas regardless of whether consumers in those areas have high or low incomes, and does not provide support for low-income consumers in low-cost areas, it would contribute only indirectly to the goal of ensuring affordable service to low-income subscribers. The primary means of ensuring that telecommunications services are affordable to low-income subscribers would be through narrowly-targeted assistance mechanisms that would be based on need. These mechanisms are described in the next section.

Because the BCM is only a hypothetical cost model, and because it does not represent the actual amount of costs that a LEC or other carrier incurs to provide service, it should not be used to develop the "reasonable" price that a

LEC should charge, or that a customer should pay, for local exchange service.[25] The monthly service costs that the model produces should be used to identify CBGs that are relatively more costly to serve than other CBGs. Those monthly costs should be used to apportion federal high-cost support through the selection of benchmark levels. For instance, the Commission could decide to provide $10 per month in support for CBGs that have total monthly costs of $60 to $70, $15 per month for CBGs that have costs of $70 to $80, and so on.[26] A set of support levels with a maximum of $30 per month for households with monthly benchmark costs of $100 or more would provide support to approximately 2.2 million of the 85 million households in areas served by price cap LECs, and would require a fund of $520 million. By varying the support levels, the Commission could control both the size of the fund and the level of assistance.

The Commission should give the state regulatory agencies the flexibility to determine how to provide additional funding for universal service in each state, as is permitted by Section 254(f) of the Act. Section 254(f) allows a state to adopt regulations not inconsistent with the Commission's rules to preserve and

---

[25] The BCM substantially underestimates the cost of providing service throughout a LEC's study area, because it is limited to residential costs; it does not take into account the additional costs of installing lines in urban areas; and it applies cost loading factors that were developed by spreading direct and indirect costs over a company's existing rate base to estimate the cost loadings for a much smaller, hypothetical incremental investment base. In addition, if the BCM is used with incremental cost loading factors, it further underestimates the fully allocated costs of providing service.

[26] See Exhibit A, which provides data on the size of the fund that the BCM would produce for price cap LECs at different levels of support.

advance universal service.[27] The Commission should not adopt rules that would prohibit the states from maintaining rate structures that require a telecommunications carrier to contribute to universal service either through the rates that it pays for termination of traffic to other providers of universal service or through its own assumption of universal service obligations.

An example of such a rate structure is the "play or pay" system of inter-carrier compensation that the New York Public Service Commission has adopted.[28] Under that system, carriers that have undertaken to provide a full range of local telephone services through their own facilities in a given service area (called "players") pay a lower rate per-minute to other local exchange carriers for termination of local traffic than interexchange carriers and than local exchange carriers that only offer limited services in niche markets (called "payers"). The lower termination rate for players is designed to encourage meaningful competition in the local exchange market and to reflect the risks assumed by carriers that offer a full range of services through their own facilities. "Payers" pay a rate for terminating traffic that is similar to the intraLATA access rate, which provides contribution to the recovery of a LEC's joint and common costs. Essentially, all local exchange carriers contribute to the

---

[27] Section 254(f) also states that a State may establish a funding mechanism for universal service in that state into which all providers of intrastate telecommunications carriers shall contribute.

[28] *See* Proceeding to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market, Case 94-C-0095, Order issued and effective September 27, 1995.

goal of universal service, either by providing it themselves, or by paying a higher charge to providers of universal service for terminating traffic. The Commission should not preclude the State commissions from using such mechanisms as part of the solution to universal service funding in each state.[29] The Commission also should not adopt rules that would impede existing State programs that are helping provide telecommunications services to high cost areas and to schools, libraries and health care providers.[30]

III. The Commission Should Develop Support Mechanisms For Low-Income Subscribers That Will Promote Subscribership.

Support for low-income customers should be developed separately from the mechanism for support of high-cost service areas, as low-income customers live in all areas -- urban and rural, high-cost and low-cost. The Commission currently has two programs -- Lifeline and Link-up America -- that provide assistance to low-income customers.[31] These programs should be expanded and/or restructured to carry out the purposes of Section 254.

---

[29] *See also* Section 252(e)(3) of the Act, which states that "nothing in this section [regarding interconnection arrangements between LECs and CLECs] shall prohibit a State commission from establishing or enforcing other requirements of State law in its review of an agreement."

[30] For example, NYNEX currently participates in a number of state-approved initiatives to bring advanced services to schools and libraries. See Exhibit B. The Commission should make it clear that such programs are not inconsistent with the federal universal service support mechanism.

[31] *See* Common Carrier Bureau, FCC, Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms (1996) at pp. 34-44. These programs defray part or all of the costs of establishing local telephone service and of paying subscriber line charges.

In addition, the Commission should authorize the LECs to establish mechanisms, such as toll limit services, toll blocking services, credit limits, reduced service deposits, and debit cards, which could help low-income customers obtain access to core universal service. Subscribership levels would increase if the LECs were permitted to impose credit limits on new customers with unknown payment histories and on existing customers with known poor payment habits. This would help the LECs provide access to such customers as well as help the customers avoid disconnections for non-payment.

The Commission should not create new services, such as community service access centers and public interest payphones. These services would act as substitutes for, rather than support for, core universal service as defined in the Act. Also, NYNEX does not support the provision of free access to telephone service information, as proposed in the *NPRM*.[32] There are other means to provide customers with telephone information services, such as published directories, toll free repair numbers, mail inserts, and media advertising alternatives.

The *NPRM* raises the issue of supporting service to highly mobile low income groups.[33] This is an area that both incumbent LECs and new entrants are already addressing with such services as voice messaging, debit cards, pagers, and public phones. Also, it is not clear whether Section 254 of the Act would

[32] *See NPRM* at paras. 51-53.
[33] *See id.* at para. 57.

allow subsidies for these services, as they are not services that are subscribed to by a substantial majority of residential customers.

IV. The Commission Should Develop Flexible Assistance Mechanisms For Schools, Libraries and Health Care Providers

A. The Commission Should Rely Upon Input From Schools, Libraries, And Health Care Providers To Determine Which Services To These Entities Should Be Funded.

The success of the Act will be measured, in large part, by how effectively the Commission uses Section 254 to bring the benefits of the information superhighway to schools, libraries, and health care providers in all areas of the country. The critical questions are (1) what services should be supported; and (2) what discounts and other mechanisms are necessary to ensure that these entities have affordable access to such services. In contrast to the large amount of data in the record about high cost areas and subscribership, the Commission has relatively little information about the needs of these entities. Therefore, the Commission needs to gather additional information from the educational, library, and health care communities before moving forward on these issues.

With regard to the first issue, the Commission should not attempt to pre-determine what telecommunications services should be funded through the universal service fund for schools, libraries, or health care providers. Telecommunications services are only one component of the packages of services, hardware, software, and professional training and support that are